

MINUTES
MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
FRIDAY, JULY 11, 2008 - 9:45 A.M.

Present:

Board Members

Guy Alongi
Allison Davis
Alexi Giannoulas
Mike Goetz
Kurt Granberg, via telephone
Thomas Hoffman
Jack Mazzotti

Staff

William Atwood
Johara El-Harazin
Alex Garcia
Tim Kominiarek
Emily Reid
Scott Richards
Katherine Spinato
Alise White

Guests

State Retirement Systems
Tim Blair
Marquette Associates
Brian Wrubel and Elizabeth Francis
M.R. Beal & Company
Edward Rozell III
The Northern Trust Company
Jaclene Robinson-Ivy

Absent:

Board Members

James Buchanan
Ronald Powell

ROLL CALL

Chairman Goetz called the meeting to order at 9:45 a.m. The Secretary called the roll and noted that a quorum was present.

Judge Hoffman moved to permit Board Member Kurt Granberg to participate in the meeting via telephone. Mr. Mazzotti seconded and the motion passed unanimously.

COMMUNICATIONS

None.

MINUTES OF PREVIOUS MEETING

Mr. Alongi moved to approve the minutes of the Board meeting held March 21, 2008, in the form previously submitted. Mr. Mazzotti seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Investment Policy Committee

Director Atwood stated that the Investment Policy Committee had met on May 2, 2008. The Committee heard presentations from Alinda Infrastructure Fund II and Macquarie Infrastructure Partners II and recommended commitments of \$100 million to Alinda Infrastructure Fund II and \$50 million to Macquarie Infrastructure Partners II and \$50 million to Macquarie European Infrastructure Fund III.

Director Atwood reported that the Investment Policy Committee had met July 10, 2008 and heard presentations from three private equity firms and recommended commitments of \$35 million each to Blackstone VI, Welsh Carson Anderson & Stowe XI, and Riverside Capital Appreciation Fund V, as recommended by staff and consultant

Mr. Davis moved to approve the recommendation of the Investment Policy Committee of \$35 million in commitments each to Blackstone VI, Welsh Carson Anderson & Stowe XI, and Riverside Capital Appreciation Fund V, as recommended by staff and consultant. Mr. Alongi seconded and the motion passed unanimously.

Executive Committee

Director Atwood reported that the Executive Committee had met May 2, 2008 and approved commitments of \$100 million to Alinda Infrastructure Fund II and \$50 million to Macquarie Infrastructure Partners II and \$50 million to Macquarie European Infrastructure Fund III.

Audit & Compliance Committee

Chairman Goetz stated that the Audit & Compliance Committee had met prior to this meeting and referred to Mr. Alongi to report on the Committee's actions. Mr. Alongi reported the following actions by the Audit & Compliance Committee:

- The minutes of the Audit & Compliance Committee meeting held March 21, 2008 were approved.
- Alise White reported on the FY 2007 immaterial findings and reported that McGladrey & Pullen would be conducting the FY 2008 audit.
- The Committee approved the IT project, including the addition of a website to the FY 2009 timeline and budget as outlined by Staff.
- Staff reported there were no exceptions to report to the Staff's Monthly Personal Interest Statements through March 2008.
- The Commission Recapture Report for the quarters ended March 2008, and the Record of Vouchers for the months of January, February and March 2008 were reviewed and approved.

Mr. Mazzotti moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above.

REPORT OF THE CHAIRMAN

None.

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report

Mr. Wrubel referred to the Investment Performance Report for the period ended March 31, 2008 and the Interim Performance Report for the period ended May 31, 2008. Detailed review and discussion ensued regarding investment performance. (Official minutes contain attachments.)

Discussion ensued regarding Ativo Capital Management's performance. Mr. Davis moved to terminate Ativo and transfer the assets to Decatur Capital. Mr. Alongi seconded and the motion passed unanimously.

Mr. Wrubel referred the Board Members to the Marquette report "Hedged Equity Manager Search". (Official minutes contain attachment.) Following review by the Marquette representatives, Mr. Alongi moved to approve the staff and consultant

recommendation to allocate the hedge fund allocation of approximately \$400 million across the existing hedge fund managers and further, to amend the mandate for EnTrust to hedged equity. Mr. Mazzotti seconded and the motion passed unanimously.

Mr. Wrubel referred the Board Members to the Marquette report "Custody Search". (Official minutes contain attachment.) Mr. Wrubel stated that an RFI for custody services was conducted as previously approved by the Board, and staff and consultant recommend retaining State Street as the custodian with an amendment to the securities lending agreement with a split of 90/10. Treasurer Giannoulis moved to approve the recommendation of staff and consultant, as outlined. Mr. Alongi seconded and the motion passed unanimously.

Discussion ensued regarding the asset allocation to small cap international. Mr. Alongi moved to approve a search for small cap international managers. Mr. Davis seconded and the motion passed unanimously.

REPORT OF THE DIRECTOR

Chairman Goetz stated that the Board would go into Executive Session to discuss closed session meeting minutes, specific investment manager contracts, a current litigation matter, an imminent securities litigation matter, and compensation and employment of specific ISBI employees.

Mr. Mazzotti moved to go into Executive Session. Mr. Alongi seconded and the motion passed unanimously. Guests and staff with the exception of Director Atwood, Ms. Spinato and Ms. Reid, excused themselves from the meeting.

Following Executive Session, Mr. Mazzotti moved to return to open session. Mr. Alongi seconded and the motion passed unanimously.

Personnel Matters

Mr. Mazzotti moved to approve a revised vacation policy for non-code staff, as recommended by staff. (Official minutes contain attachment.) Mr. Alongi seconded and the motion passed unanimously.

Mr. Alongi moved to approve revised job descriptions for all non-code positions as recommended by staff. (Official minutes contain attachments.) Mr. Mazzotti seconded and the motion passed unanimously.

Mr. Alongi moved to approve annual salary increases for non-code employees as follows:

<u>Name</u>	<u>Annual Increase</u>	<u>Effective Date</u>
Atwood, W.	\$8,410	03/16/08
El-Harazin, J.	3,320	07/01/08
Garcia, A.	3,000	07/01/08
Kominiarek, T.	4,800	07/01/08
Peterson, E.	4,600	07/01/08
Richards, S.	5,234	07/01/08
Spinato, K.	4,687	07/01/08

Mr. Mazzotti seconded and the motion passed unanimously.

PROPOSED FY 2009 BUDGET

Director Atwood stated that the proposed budget for fiscal year 2009 was previously distributed. Treasurer Giannoulis moved to approve the budget as proposed by staff. Mr. Alongi seconded and the motion passed unanimously. (Official minutes contain attachment.)

Treasurer Giannoulis initiated discussion regarding how ISBI's budget compared to like-size funds. Following discussion, Director Atwood stated that staff would research and prepare a report for the next meeting.

Matters Relating to Existing Managers

Scott Richards reviewed his memorandum "Matters Relating to Existing Managers" dated June 30, 2008 which had previously been distributed. Tim Kominiarek reviewed his memorandum "Matters Relating to Existing Managers/Investments" dated June 23, 2008 which had previously been distributed. (Official minutes contain attachments.)

Director Atwood reported that he had met with Edward Smith of Ullico and discussed a succession plan for the J for Jobs investment.

Watch List

Director Atwood called on Scott Richards to review the Watch List. Mr. Richards stated that the Watch List for March, 2008 was previously distributed and reviewed. (Official minutes contain attachment.)

Iran List of Securities

Director Atwood referred the members to the "List of Scrutinized Companies with ties to Iran" dated June 4, 2008, which had previously been distributed. Ms. Reid reviewed the Board's responsibilities under Public Act 95-616 and recommended adoption of the "scrutinized companies" list as provided by RiskMetrics Group, in accordance with Public Act 95-616 and the Board's Iran Divestment Policy. Following discussion, Mr.

Public Act 95-616 and the Board's Iran Divestment Policy. Following discussion, Mr. Davis moved to approve List of Scrutinized Companies with Ties to Iran" as recommended by staff. Judge Hoffman seconded and the motion passed unanimously. (Official minutes contain attachment.)

Minority Brokerage Usage

Revised Minority Brokerage Policy – Director Atwood reported that staff was recommending the following revisions to the Minority Brokerage Policy:

- increase the minority brokerage usage goal from 15% to 20%,
- include international trading as part of the usage goal, and
- include language that step-outs to brokerage firms are not allowed

Following discussion, Mr. Mazzotti moved to approve the revised Minority Brokerage Policy as recommended by staff. Mr. Davis seconded and the motion passed unanimously. (Official minutes contain attachment.)

Report for Quarter March 31, 2008 – Ms. Garcia stated that the "Minority Brokerage Usage Report" for the period ended March 31, 2008 had previously been distributed and stated that all managers, with the exception of Loomis Sayles, had exceeded the 15% usage of minority broker/dealers. There being no questions or comments, the report was ordered filed. (Official minutes contain attachment.)

Budget Comparison

Ms. Spinato stated that the Budget Comparisons for the quarter ended March 31, 2007, had previously been submitted. There being no questions or comments, the Budget Comparison was ordered filed. (Official minutes contain attachments.)

Financial Statements

Ms. White stated that the financial statements for the quarters ended December 31, 2007 and March 31, 2008 had previously been distributed. Ms. White stated that the December 31, 2007 quarterly statements were restated due to real estate valuations. There being no questions or comments, Mr. Alongi moved to approve the financial statements for the quarters ended December 31, 2007 and March 31, 2008, in the form submitted. Mr. Mazzotti seconded and the motion passed unanimously. (Official minutes contain attachments.)

Legislative Update

Ms. Reid referred the Members to her memorandum "HB 824" dated July 2, 2008 and reviewed, stating that, if passed, HB 824 may potentially affect the Board. (Official minutes contain attachment.)

Deferred Compensation

Consultant Contract Renewal – Ms. Spinato reported that staff was recommending an extension of the existing agreement between Iron Capital and the Board for a 5-year period with no annual fee increase. Further, Ms. Spinato stated that an RFI for the

year. (Official minutes contain attachment.) Mr. Alongi moved to approve extending the Iron Capital agreement as recommended by staff. Mr. Mazzotti seconded and the motion passed unanimously.

Deferred Compensation Quarterly Review – Ms. Spinato stated that the Iron Capital quarterly report had previously been distributed. (Official minutes contain attachment.)

REPORT OF ANY BOARD MEMBER

Treasurer Giannoulas requested the Board and staff consider environmentally friendly investment initiatives. It was the consensus of the Members that staff would review and report at the next meeting.

UNFINISHED BUSINESS

None.

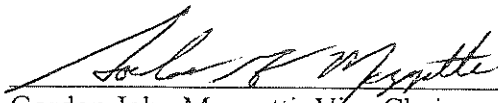
NEW BUSINESS


None.

NEXT MEETING AND ADJOURNMENT

Chairman Goetz stated that the next meeting of the Audit & Compliance Committee and Board were scheduled to be held Friday, September 26, 2008 at 9:30 a.m. and 9:45 a.m., respectively. At 11:25 a.m., there being no further business to come before the Board, Mr. Mazzotti moved to adjourn. Mr. Alongi seconded and the meeting was adjourned.

Respectfully submitted,


Gordon John Mazzotti, Vice Chairman


Michael Goetz, Chairman